CONGRESSIONAL BUDGET OFFICE
U.S. Congress
Washington, DC 20515

Douglas W. Elmendorf, Director

April 5, 2011

Honorable Paul Ryan
Chairman
Committee on the Budget
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

In response to your request, the Congressional Budget Office (CBO) has conducted a long-term analysis of your proposal to substantially change federal payments under the Medicare and Medicaid programs, eliminate the subsidies to be provided through new insurance exchanges under last year's major health care legislation, leave Social Security as it would be under current law, and set paths for all other federal spending (excluding interest) and federal tax revenues at specified growth rates or percentages of gross domestic product (GDP). The results of that analysis are summarized in the attachment.

CBO has not reviewed legislative language for your proposal, so this analysis does not represent a cost estimate for legislation that might implement the proposal. Rather, it is an assessment of the broad, long-term budgetary impacts of the proposal, with results spanning several decades and measured as a share of GDP. It is therefore quite different from a cost estimate for legislation, which would require much more detailed analysis, focus on the first 10 years, and be based on more recent baseline projections. (CBO's most recent long-term projections, which are the basis for this analysis, were issued in June 2010 and were derived from the agency's March 2010 baseline projections.)

I hope this information is helpful to you. If you have any questions, please contact me or CBO staff. The primary staff contact for this analysis is Joyce Manchester.

[redacted]

Attachment

cc: Honorable Chris Van Hollen
Ranking Member

CONGRESSIONAL BUDGET OFFICE

Long-Term Analysis of a Budget Proposal by Chairman Ryan

April 5, 2011

On April 8, 2011, CBO corrected a sentence on page 9, as noted there.

Over the next several decades, the continued aging of the population and the growth of health care costs will, under current law, almost certainly boost federal spending significantly relative to the output of the economy. According to the Congressional Budget Office's (CBO's) most recent long-term projections, which were issued in June 2010 and were based on the assumption that then-current law would generally remain in place, spending on Social Security and the government's major mandatory health care programs—Medicare, Medicaid, the Children's Health Insurance Program (CHIP), and health insurance subsidies to be provided through insurance exchanges—will increase from roughly 10 percent of gross domestic product (GDP) today to about 15 percent 20 years from now.[1] If revenues and federal spending apart from those programs remain near their past levels relative to GDP, the increase in spending on Social Security and the health care programs will lead to rapidly growing budget deficits and mounting federal debt.

At the request of the Chairman of the House Budget Committee, Congressman Paul Ryan, CBO has analyzed a proposal that would substantially change federal payments under the Medicare and Medicaid programs, eliminate the subsidies to be provided through new insurance exchanges under last year's major health care legislation, leave Social Security as it would be under current law, and set paths for all other federal spending (excluding interest) and federal tax revenues based on specified growth rates or specified percentages of GDP. CBO has conducted a long-term analysis of the major provisions of the proposal as described by the Chairman's staff. The specifications may differ in some ways from the plan released today by Chairman Ryan in *The Path to Prosperity: Restoring America's Promise*.

CBO has not reviewed legislative language for the proposal, so this analysis does not represent a cost estimate for legislation that might implement the proposal. Rather, it is an assessment of the broad, long-term budgetary impacts of the proposal, with results spanning several decades and measured as a share of GDP. It is therefore quite

1. See Congressional Budget Office, *The Long-Term Budget Outlook* (June 2010, revised August 2010). For the purpose of that analysis, CBO assumed that scheduled benefits for Social Security and Part A of Medicare would continue to be paid even if the trust funds for those programs became exhausted. Mandatory spending is generally controlled through authorizing legislation by setting eligibility rules, benefit formulas, and other parameters. Discretionary spending is controlled through the annual appropriation process.

different from a cost estimate for legislation, which would require much more detailed analysis, focus on the first 10 years, and be based on more recent baseline projections.

Among other changes, the proposal would convert the current Medicare program to a system under which beneficiaries received premium support payments—payments that would be used to help pay the premiums for a private health insurance policy and would grow over time with overall consumer prices. The change would apply to people turning 65 beginning in 2022; beneficiaries who turn 65 before then would remain in the traditional Medicare program, with the option of converting to the new system.[2] Additionally, the proposal would convert the matching payments that the federal government makes to states for Medicaid costs under current law into block grants of fixed dollar amounts beginning in 2013. Those amounts would grow over time with overall consumer prices and population growth. Further, the proposal would repeal the key provisions of the major 2010 health care legislation that deal with insurance coverage and certain other provisions. Under the proposal, mandatory spending for health care would be about 6 percent of GDP in 2030 and 2040 and about 5 percent in 2050, CBO estimates.

The proposal would also make changes to other aspects of the federal budget. Social Security would not be altered by the proposal; spending on that program is projected to be relatively stable as a share of GDP from 2030 forward. The proposal specifies a path for all other spending (excluding interest) that would cause such spending to decline sharply as a share of GDP—from 12 percent in 2010 to 6 percent in 2022 and 3½ percent by 2050; the proposal does not specify the changes to government programs that might be made in order to produce that path. Total spending under the proposal would be about 21 percent of GDP in 2030 and almost 15 percent in 2050. The proposal also specifies a path for revenues relative to GDP—rising from 15 percent in 2010 to 18½ percent in 2022 and 19 percent in 2030 and beyond.

The resulting budget deficits under the proposal would be around 2 percent of GDP in the 2020s and would decline during the 2030s. The budget would be in surplus by 2040 and show growing surpluses in the following decade. Federal debt would equal about 48 percent of GDP by 2040 and 10 percent by 2050.

By 2030, total federal spending, deficits, and debt under the proposal would all be lower than under CBO's June 2010 long-term projections (see Table 1). Those projections include two scenarios—an extended-baseline scenario based on then-current law and an alternative fiscal scenario that incorporated several changes to then-current law that were widely expected to occur or that would modify some provisions of law that might be difficult to sustain for a long period. Both of those scenarios deviate significantly from the nation's past budgetary experience: In the extended-baseline scenario,

2. The traditional Medicare program refers to the benefits covered under Parts A, B, and D of Medicare and includes benefits provided both in the fee-for-service sector and by participating private plans (that is, through the Medicare Advantage program, prescription drug plans, or the Retiree Drug Subsidy program).

Table 1.

Federal Deficits or Surpluses and Debt

(Percentage of gross domestic product)

	Actual	Projected			
	2010	2022	2030	2040	2050
			Extended-Baseline Scenario		
Total Revenues	15	21	22¼	24¼	26
Total Spending	23¾	23¾	26¼	28¾	30¼
Deficit (-) or Surplus	-9	-2¾	-4	-4½	-4
Debt Held by the Public	62	67	74	84	90
			Alternative Fiscal Scenario		
Total Revenues	15	19¼	19¼	19¼	19¼
Total Spending	23¾	26¾	32¼	38½	45¼
Deficit (-) or Surplus	-9	-7½	-13	-19¼	-26
Debt Held by the Public	62	95	146	233	344
			Proposal		
Total Revenues	15	18½	19	19	19
Total Spending	23¾	20¼	20¾	18¾	14¾
Deficit (-) or Surplus	-9	-2	-1¾	¼	4¼
Debt Held by the Public	62	70	64	48	10

Source: Congressional Budget Office.

Notes: The proposal that CBO analyzed is as specified by Chairman Paul Ryan and his staff. The extended-baseline and alternative fiscal scenarios are as described in Congressional Budget Office, *The Long-Term Budget Outlook* (June 2010; revised August 2010).

Components may not add up to totals because of rounding.

both spending and revenues are well above historical norms as a share of GDP, and federal debt rises to 90 percent of GDP by 2050; under the alternative fiscal scenario, tax revenues remain within their historical range relative to GDP, but with spending above that range, federal debt skyrockets on an unsustainable path and exceeds its historical peak relative to GDP by the mid-2020s.

Government payments for health care under the proposal would become significantly more predictable than under current law but could still vary a good deal from the estimates presented here. The estimates of the budgetary effects of the proposal are very sensitive to the growth rates specified for government payments, particularly over the longer term, because of the effects of compounding. For both Medicare and Medicaid, the budgetary effects would become larger over time, because under the proposal, spending for those programs would grow more slowly than it is projected to grow under current law. Because future federal spending on health care under current law is difficult to predict, the magnitude of the changes in budgetary outcomes under the proposal is also highly uncertain, particularly in the longer term.

Rockaway Township Board of Education
Purchase Order Report for 121440...

PO #	Account #	Vendor	Control #	Commit	Original	Payments	Invoiced	Cancelled/ Credited	Voided	Open
	Payment Details :	Invoice#	Check Description		Check#	Check Date	Check Amt			
121440	11-000-261-420-30-000-	4105/JPS EVERYTHING		10/31/11	14,660.00	0.00	0.00	0.00	0.00	14,660.00
	Payment Details :		1/2 PAYMENT START UP		129446	11/14/2011	7,330.00	Check in Process		
			FINAL PAYMENT		129495	11/16/2011	7,330.00	Check in Process		
Grand Totals for 1 Purchase Orders					14,660.00	0.00	0.00	0.00	0.00	14,660.00

Under the proposal, most elderly people would pay more for their health care than they would pay under the current Medicare system. For a typical 65-year-old with average health spending enrolled in a plan with benefits similar to those currently provided by Medicare, CBO estimated the beneficiary's spending on premiums and out-of-pocket expenditures as a share of a benchmark: what total health care spending would be if a private insurer covered the beneficiary. By 2030, the beneficiary's spending would be 68 percent of that benchmark under the proposal, 25 percent under the extended-baseline scenario, and 30 percent under the alternative fiscal scenario.

Federal payments for Medicaid under the proposal would be substantially smaller than currently projected amounts. States would have additional flexibility to design and manage their Medicaid programs, and they might achieve greater efficiencies in the delivery of care than under current law. Even with additional flexibility, however, the large projected reduction in payments would probably require states to decrease payments to Medicaid providers, reduce eligibility for Medicaid, provide less extensive coverage to beneficiaries, or pay more themselves than would be the case under current law.

CBO's long-term scenarios and the proposal analyzed here are all subject to pressures over the long term that would make them difficult to sustain. Under the extended-baseline scenario, revenues would reach higher levels relative to the size of the economy than ever recorded in the nation's history, payments to physicians under Medicare would be reduced well below current rates, and payments to other Medicare providers would grow more slowly than the cost of their inputs; nevertheless, federal debt would continue to grow relative to GDP. Under the alternative fiscal scenario, revenues would be lower and Medicare's payments to physicians and other providers would be higher than under the extended-baseline scenario, but the government's debt would skyrocket to levels unprecedented in the United States. Rising tax rates or surging federal debt might accentuate concerns about the budgetary situation and thereby lead policymakers to reduce benefits under Medicare, Medicaid, or other programs.

Under the proposal analyzed here, debt would eventually shrink relative to the size of the economy—but the gradually increasing number of Medicare beneficiaries participating in the new premium support program would bear a much larger share of their health care costs than they would under the current program; payments to physicians and other providers for services provided under the traditional Medicare program would be restrained (as under the two scenarios); states would have to pay substantially more for their Medicaid programs or tightly constrain spending for those programs; and spending for federal programs other than Social Security and the major health care programs would be reduced far below historical levels relative to GDP. It is unclear whether and how future lawmakers would address the pressures resulting from the long-term scenarios or the proposal analyzed here.